

5. Study the extract below and answer the questions that follow.

Let's Keep the Steel Tariffs

This is a Letter to the Editor written by Leo Gerard, International President, United Steel Workers of America.

- ❶ Eighteen months ago the US steel industry was in ruins. Years of unfair foreign trade and **dumping** had devastated our domestic market, and the results were grim: more than 30 companies bankrupted, 17 companies sold out, more than 50 000 jobs destroyed and the health-care benefits of more than 200 000 retiring workers were lost.
- ❷ President Bush recognized this grave danger and put in place a three-year program of tariffs on certain steel products. His goal was to protect American manufacturing jobs, to help the steel industry to recover by regaining its **comparative advantage**, and to stand up for the principle that free trade must be fair trade.
- ❸ Across our industry, companies are benefiting. Labour and management have made agreements that increase worker productivity and reduce unnecessary levels of management. Productivity is up, and billions of dollars have been invested in new technologies and improved facilities. None of this would have been possible without the extra time provided by the three-year steel tariff program.
- ❹ Just as important, the gloomy predictions of opponents of the tariff program have not become reality. Steel prices in America are among the lowest in the world. Steel supplies are readily available. Above all, the industries that are the biggest consumers of steel are in better competitive shape today than they were before the program was introduced.
- ❺ We have made great progress, but significant work remains. Rebuilding an industry isn't an event; it's a process. And we are very much in the middle of that process.
- ❻ The president's steel program planned for three years of gradually declining tariffs. Despite the critics, the challenge now is to continue with the program so that the sweeping changes made possible by the tariffs can be fully realized and turned into a foundation for long-term strength. We are confident that the president will continue to be true to his word so that this vital industry can continue its recovery, and manufacturing jobs will remain secure in America.

[Source: adapted from *The Washington Post*, October 2003]

This question continues on the following page)

(Question 5 continued)

- (a) Define the following terms indicated in bold in the text:
- (i) dumping (*paragraph ①*) *[2 marks]*
 - (ii) comparative advantage (*paragraph ②*). *[2 marks]*
- (b) With the help of a supply and demand diagram, show the effects of the US tariff on imported steel. *[4 marks]*
- (c) With the help of an appropriate diagram, explain **one** other protectionist policy (other than a tariff), which the American government might use to support the domestic steel industry. *[4 marks]*
- (d) Using information from the text and your knowledge of economics, evaluate the arguments for and against the protectionism in the steel industry. *[8 marks]*
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